

**EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE**

Financial Statements and Supplementary Information  
For Years Ended June 30, 2017 and 2016

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Financial Statements and Supplementary Information  
For Years Ended June 30, 2017 and 2016

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## INTRODUCTORY SECTION

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Board of Directors and Management Listing  
For Year Ended June 30, 2017

BOARD OF DIRECTORS

Kenneth Calvert	Chairman
Mary Margaret Denton	Vice-chairman
Vivian Crymble	Treasurer
Eddie Wampler	Board member
Conner Caldwell	Board member
Mickey Spivey	Board member
John Moser	Board member

BY VIRTUE OF OFFICE

David Quillin, Chief of Police	Board member
Craig Dye, Fire Chief	Secretary

MANAGEMENT

Steve Hammonds	Executive Director
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LEGAL COUNSEL

Joe May	Attorney
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## FINANCIAL SECTION



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## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Emergency Communications District of the City of Kingsport, Tennessee  
Kingsport, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of the Emergency Communications District of the City of Kingsport, Tennessee (the District), a component unit of the City of Kingsport, Tennessee, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Tennessee Society of Certified Public Accountants • Virginia Society of Certified Public Accountants

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Emergency Communications District of the City of Kingsport, Tennessee as of June 30, 2017 and 2016, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and the schedules of revenues and expenses – budget and actual presented in the supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Revenues and Expenses – Budget and Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Revenues and Expenses – Budget and Actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2017 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Lewis & Associates, P.C.*

Johnson City, Tennessee  
October 19, 2017

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Management's Discussion and Analysis  
For Years Ended June 30, 2017 and 2016

As financial management of the Emergency Communications District of the City of Kingsport, Tennessee (the "District"), a component unit of the City of Kingsport, Tennessee, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

### **Financial Highlights**

The Emergency Communications District recognized operating income of \$218,534 for fiscal year 2017, compared to operating income of \$141,192 for fiscal year 2016 and \$163,324 for fiscal year 2015. The principal reason for the increase in 2017 was an increase in distributions of excess revenue from the Tennessee Emergency Communications Board. The principal reason for the decrease in 2016 was the increase in depreciation expense associated with placing the District's new building in service. Net income produced an increase in net position of \$268,658 in 2017, compared to \$156,267 in 2016 and \$220,006 in 2015. The term "net position" refers to the difference between assets and liabilities. At the close of fiscal year 2017, the District had net position of \$4,195,656, an increase of 7% over the prior year, and at the close of the fiscal year 2016, the District had net position of \$3,926,998, an increase of 4% over the prior year.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. Since the District consists of a single enterprise fund, no fund level financial statements are shown. In addition, the District has no infrastructure assets and is therefore exempt from required infrastructure disclosures. This report also contains other supplementary information concerning the District's budget versus actual comparison and certain non-financial information required by the Tennessee Emergency Communications Board.

**Basic financial statements:** The basic financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statements of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position which indicates an improved financial position.

The statements of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statements of cash flows present cash flows broken down into four categories: cash flows from operations, noncapital financing activities, capital and related financing activities, and investing activities. The statements of cash flows relate these amounts to changes in cash balances from the beginning of the year to the end of the year.



EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Management's Discussion and Analysis (Continued)

**Overview of the Financial Statements (Continued)**

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the information provided in the basic financial statements.

Other information: In addition to the financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budget versus actual comparison and certain non-financial information required by the Tennessee Emergency Communications Board.

**Financial Analysis**

Net position may serve, over time, as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$4,195,656 at June 30, 2017. This represents an increase of \$268,658 (7%) over the previous year. The unrestricted net position was \$1,608,262. During the year, the District designated \$700,000 of net position for future purchases of capital assets. At the close of June 30, 2016, assets exceeded liabilities by \$3,936,183 and represented an increase of \$156,267 (4%) over the previous year. The unrestricted net position was \$1,215,564.

The largest portion of the District's net position has historically been its cash and certificates of deposit. The District used all of the monies that it had invested in certificates of deposit in the years ended June 30, 2015 and 2014 to construct its new dispatch center.

Emergency Communications District's net position was as follows for the fiscal years ended June 30, 2017, 2016, and 2015.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 1,611,689	\$ 1,224,839	\$ 1,026,389
Capital assets	<u>2,587,394</u>	<u>2,711,344</u>	<u>2,849,139</u>
Total assets	<u><u>4,199,083</u></u>	<u><u>3,936,183</u></u>	<u><u>3,875,528</u></u>
Current liabilities	<u><u>3,427</u></u>	<u><u>9,185</u></u>	<u><u>104,797</u></u>
Net position:			
Investment in capital assets	2,587,394	2,711,344	2,751,156
Unrestricted	<u>1,608,262</u>	<u>1,215,654</u>	<u>1,019,575</u>
Total net position	<u><u>\$ 4,195,656</u></u>	<u><u>\$ 3,926,998</u></u>	<u><u>\$ 3,770,731</u></u>

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Management's Discussion and Analysis (Continued)

**Financial Analysis (Continued)**

Emergency Communications District's changes in net position were as follows for the fiscal years ended June 30, 2017, 2016, and 2015.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 831,108	\$ 725,903	\$ 639,499
Operating expenses	<u>612,574</u>	<u>584,711</u>	<u>476,175</u>
Income (loss) from operations	<u>218,534</u>	<u>141,192</u>	<u>163,324</u>
Non-operating revenues:			
Interest income	124	277	606
TECB grants and reimbursements	50,000	-	56,076
Other income	<u>-</u>	<u>14,798</u>	<u>-</u>
Total non-operating revenues	<u>50,124</u>	<u>15,075</u>	<u>56,682</u>
Increase in net position	268,658	156,267	220,006
Net position, beginning of year	<u>3,926,998</u>	<u>3,770,731</u>	<u>3,550,725</u>
Net position, end of year	<u>\$ 4,195,656</u>	<u>\$ 3,926,998</u>	<u>\$ 3,770,731</u>

**Significant Events**

In 2017, the District installed \$61,338 of new equipment and completed dispatcher training in its use.

The District completed and occupied its new dispatch center in 2016. The total investment in the new building amounted to \$2,022,110 at completion.

In 2015, the District invested \$1,949,199 in the new building, equipment, and other assets.

**Cash Flows**

Net cash from operating activities during the year ended June 30, 2017, was \$411,732, an increase of \$94,908 from the amount of 2016 operating cash flows. This increase was principally due to increased total revenues. Net cash from noncapital financing activities involving the receipt of monies from grants during the year ended June 30, 2017, was \$64,798, including a \$14,798 refund from a service provider. Net cash from capital and related financing activities resulted in cash outlays of \$63,306 in 2017. Net cash from investing activities for the year ended June 30, 2017, were \$124 from interest income.

Net cash from operating activities during the year ended June 30, 2016 was \$316,824, an increase of \$12,952 from the prior year amount. This increase was due principally to increased total revenues that exceeded higher costs. There was no net cash from noncapital financing activities involving the receipt of monies from grants during the year ended June 30, 2016. Net cash from capital and related financing activities resulted in cash outlays of \$125,127 in 2016. Net cash from investing activities for the year resulted in cash inflows of \$277 due to interest income.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Management's Discussion and Analysis (Continued)

**Cash Flows (Continued)**

Net cash from operating activities during the year ended June 30, 2015 were \$303,872, an increase of \$255,990 from the prior year amount. This increase was due principally to increased total revenue and lower expenses paid to suppliers of goods and service. Net cash from noncapital financing activities during the year ended June 30, 2015 were \$56,076. Net cash from capital and related financing activities resulted in cash outlays of \$1,949,199 in 2015. Net cash from investing activities for the year resulted in cash inflows of \$664,064 due mainly to cashing in certificates of deposit to pay for construction costs of the new dispatch center.

**Budgeting Highlights**

The original budget for the fiscal year ended June 30, 2017 was approved in May, 2016 and was amended as needed throughout the year. The original and final budgets are presented as separate columns in the supplementary information.

**Capital Asset and Debt Administration**

Capital Assets: The District's investment in capital assets amounts to \$2,587,394 as of June 30, 2017, a decrease of \$123,950 from the prior year. Capital assets include land, a dispatch center, communications equipment and computer hardware and software used in 911 communications.

Long-Term Debt: The District had no long-term debt as of June 30, 2017 and 2016, respectively.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, Emergency Communications District of the City of Kingsport, Tennessee, 141 Unicoi Street, Kingsport, Tennessee 37660.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Statements of Net Position  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 1,573,848	\$ 1,160,500
Accounts receivable	-	14,798
Prepaid expenses	<u>37,841</u>	<u>49,541</u>
Total current assets	<u>1,611,689</u>	<u>1,224,839</u>
Capital assets:		
Buildings and improvements	2,022,110	2,022,110
Furniture and fixtures	213,946	211,978
Office equipment	71,894	71,894
Communications equipment	733,044	671,706
Other fixed assets	114,926	114,926
Land	<u>242,010</u>	<u>242,010</u>
	3,397,930	3,334,624
Less: accumulated depreciation	<u>(810,536)</u>	<u>(623,280)</u>
Net capital assets	<u>2,587,394</u>	<u>2,711,344</u>
Total assets	<u>\$ 4,199,083</u>	<u>\$ 3,936,183</u>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 3,427	\$ 9,185
Net position:		
Investment in capital assets	2,587,394	2,711,344
Unrestricted	<u>1,608,262</u>	<u>1,215,654</u>
Total net position	<u>4,195,656</u>	<u>3,926,998</u>
Total liabilities and net position	<u>\$ 4,199,083</u>	<u>\$ 3,936,183</u>

The accompanying notes are an integral part of these financial statements.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Statements of Revenues, Expenses, and Changes in Net Position  
For Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>		
Tennessee Emergency Communications Board (TECB)		
distribution of 911 surcharges	\$ 769,230	\$ 712,182
TECB distribution of excess revenue	<u>61,878</u>	<u>13,721</u>
Total operating revenues	<u>831,108</u>	<u>725,903</u>
<b>Operating Expenses</b>		
Audit services	6,469	6,466
Accounting services	10,750	8,708
Contracts with government agency	217,443	217,443
Fees paid to service providers	43,200	44,791
Legal fees	5,955	11,803
Other consultants	570	450
Office supplies	844	1,017
Postage	-	47
Utilities	20,823	20,221
Maintenance/communication equipment	48,833	48,277
Maintenance/building and improvements	3,125	6,668
Board meeting expenses	64	58
Dues and memberships	1,990	575
Liability insurance	4,026	4,073
Building insurance	1,783	3,013
Surety bonds	5,726	5,635
Service awards	842	1,477
Training	28,541	16,151
Travel	24,088	22,308
Advertising	154	574
Other charges	92	17
Depreciation	<u>187,256</u>	<u>164,939</u>
Total operating expenses	<u>612,574</u>	<u>584,711</u>
Operating income	218,534	141,192
<b>Non-operating Revenues (Expenses)</b>		
Interest	124	277
Other income	-	14,798
TECB grants and reimbursements	<u>50,000</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>50,124</u>	<u>15,075</u>
Change in net position	268,658	156,267
<b>Net Position, Beginning of Year</b>	<u>3,926,998</u>	<u>3,770,731</u>
<b>Net Position, End of Year</b>	<u>\$ 4,195,656</u>	<u>\$ 3,926,998</u>

The accompanying notes are an integral part of these financial statements.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Statements of Cash Flows  
For Years Ended June 30, 2017 and 2016

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Receipts from TECB distribution of 911 surcharges	\$ 769,230	\$ 712,182
Receipts from TECB distribution of excess revenue	61,878	13,721
Payments for contracts with government agency	(217,443)	(217,443)
Payments to service providers	(43,200)	(44,791)
Payments to suppliers for goods and services	(158,733)	(146,845)
Net cash flows provided by operating activities	<u>411,732</u>	<u>316,824</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
TECB grants and reimbursements	50,000	-
Other income	14,798	-
Net cash flows provided by noncapital financing activities	<u>64,798</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(63,306)	(125,127)
Net cash flows used in capital and related financing activities	<u>(63,306)</u>	<u>(125,127)</u>
<b>Cash Flows from Investing Activities</b>		
Interest income	124	277
Net cash flows provided by investing activities	<u>124</u>	<u>277</u>
Net increase in cash	413,348	191,974
<b>Cash, Beginning of Year</b>	<u>1,160,500</u>	<u>968,526</u>
<b>Cash, End of Year</b>	<u><u>\$ 1,573,848</u></u>	<u><u>\$ 1,160,500</u></u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>		
Operating income	\$ 218,534	\$ 141,192
Adjustment to reconcile operating income to net cash flows from operating activities:		
Depreciation	187,256	164,939
Decrease in prepaid expenses	11,700	8,322
Increase (decrease) in accounts payable	(5,758)	2,371
<b>Net Cash Flows Provided by Operating Activities</b>	<u><u>\$ 411,732</u></u>	<u><u>\$ 316,824</u></u>

The accompanying notes are an integral part of these financial statements.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Notes to Financial Statements  
June 30, 2017 and 2016

**Note 1 – Summary of Significant Accounting Policies**

General Information

The Emergency Communications District of the City of Kingsport, Tennessee (the District) was created by a referendum held on January 11, 1994, the results of which were certified on January 20, 1994, as required by Tennessee Code Annotated Title 7 Chapter 86 "Emergency Communications District" section 7-86-104. The purpose of the Emergency Communications District is to oversee the operations of the 911 emergency telephone services for the city. The Board consists of nine members, all of whom are appointed by the Board of Mayor and Aldermen of the City of Kingsport, Tennessee.

Reporting Entity

The District is a component unit of the City of Kingsport, Tennessee. The basic, but not the only, criteria for including a potential component unit within the primary government's reporting entity is the primary government's financial accountability for the potential component unit. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. The Board of Mayor and Aldermen of the City of Kingsport appoint all nine members of the Board of Directors of the Emergency Communications District of the City of Kingsport, Tennessee. Traditionally, two of the Board members are employees of the City of Kingsport who serve on the Board as part of their duties as Police Chief and Fire Chief. In addition, all personnel performing the daily operations of the District are employees of the City of Kingsport. The City of Kingsport therefore has the ability to impose its will on the Emergency Communications District of the City of Kingsport. Based upon the application of these criteria, the District is a component unit of the City of Kingsport, Tennessee.

Basis of Presentation

The accounts of the District are organized on the basis of a proprietary fund type and are considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, and revenues and expenses, as appropriate. Government resources are allocated to and accounted for in the fund based on the purposes for which they are to be spent and the means by which spending activities are controlled.

The accounts of the District are on an enterprise fund basis. An enterprise fund is a proprietary type fund used to account for operations that (1) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (2) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District operates as a singular enterprise fund.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe how transactions are recorded within the financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Notes to Financial Statements (Continued)  
June 30, 2017 and 2016

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Measurement Focus and Basis of Accounting (Continued)

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal operating revenues of the District are charges to phone customers for emergency surcharges. Operating expenses include the cost of contracted services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all demand deposit, savings, and money market accounts to be cash. Any certificates of deposit, treasury bills, or other short-term investments with an initial maturity of less than three months are classified as cash equivalents. At June 30, 2017 and 2016 the District held no short-term investments classified as cash equivalents.

Prepaid Expenses

The cost of prepaid expenses that include maintenance contracts are charged to operations over the period of coverage. As of June 30, 2017 and 2016, prepaid costs were \$37,841 and \$49,541, respectively.

Capital Assets

Capital assets are defined by the District assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Capital assets are stated at cost, net of accumulated depreciation and amortization. Donated assets are recorded at estimated fair market value at the date of donation. Depreciation and amortization is computed on a straight-line basis over the estimated lives of the assets, as follows:

Building	40 years
Furniture and fixtures	7-10 years
Office equipment	5-7 years
Communications equipment	5-7 years
Other capital assets	5-7 years

Assets that are retired or disposed of are removed from the books along with any accumulated depreciation and any resulting gain or loss is recognized at the time of disposal. The cost of repairs and maintenance that do not add value to the capital assets or extend the useful life of the capital assets are expensed when incurred.



EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Notes to Financial Statements (Continued)  
June 30, 2017 and 2016

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Revenue

Effective January 1, 2015, in accordance with the 911 Funding Modernization and IP Transition Act of 2014, the Tennessee Emergency Communications Board (TECB) collects all 911 surcharges on land lines and wireless and distributes a base amount to state emergency communications districts. The base amount is based on each district's pro-rata share of emergency surcharges. Surcharge revenue collected in excess of the annual fiscal requirements of the TECB shall be distributed at a minimum of 50% of the excess to the emergency communications districts in accordance with TECB policies.

Expenses

The City of Kingsport, Tennessee provides the physical facilities, employees, and administrative services necessary to operate the District on a contractual fee basis.

Income Taxes

The Emergency Communications District is an agency organized and existing pursuant to the provisions of Tennessee Code Annotated 7-86-101 which is exempt from federal income taxes pursuant to 26 USC 115 relating to income of states, municipalities, etc.

Budget

In accordance with Tennessee Code Annotated 7-86-120, an annual budget is adopted by the District. The annual budget is prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenses must be presented at the legal level of control, which is defined to be at the line-item level. The budget may be amended by the Board of Directors as conditions warrant throughout the year.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position may sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The District did not have any deferred outflows of resources or deferred inflows of resources to report as of June 30, 2017 and 2016.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Notes to Financial Statements (Continued)  
June 30, 2017 and 2016

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Net Position

Net position comprises the various net earnings from operating and nonoperating revenues, expenses, and contributions of capital. Net position is classified in the following three components as applicable: investment in capital assets, restricted net position, and unrestricted net position.

*Investment in capital assets* consists of all capital assets, net of accumulated depreciation, and, if applicable, deferred outflows of resources, reduced by any outstanding debt attributable to the acquisition, construction, and improvement of those assets, debt or deferred inflow of resources attributable to unspent proceeds or other restricted cash and investments are excluded from the determination.

*Restricted net position* consists of net positions for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates.

*Unrestricted net position* is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

New Accounting Pronouncements

The District is normally an early adopter of new Governmental Accounting Standards Board pronouncements. During the year ended June 30, 2017, there were no new pronouncements that became effective or that could be early adopted that applied to the District.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Date of Management's Review

The District's management has evaluated events and transactions occurring after the statement of net position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report which is the date these financial statements were available to be issued.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Notes to Financial Statements (Continued)  
June 30, 2017 and 2016

**Note 2 – Deposits**

At June 30, 2017, the District's recorded cash balance was \$1,573,848 and the deposits in financial institutions were \$1,647,883. At June 30, 2016, the District's recorded cash balance was \$1,160,500 and its deposits in financial institutions were \$1,217,085.

Custodial credit risk for the District's deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's bank deposits are maintained in banks insured by the Federal Deposit Insurance Corporation up to \$250,000 and the remaining amount of bank balance is covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department. The District's cash was held by financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. State statutes provide for additional amounts to be assessed on a pro rata basis to financial institutions in the collateral pool in the event the pool's funds would be insufficient to cover a loss. The District's deposits in financial institutions were entirely insured or collateralized at June 30, 2017 and 2016.

**Note 3 – Capital Assets**

Capital assets activity for the year ended June 30, 2017 was as follows:

	June 30, 2016	Additions	Deletions	June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 242,010	\$ -	\$ -	\$ 242,010
Capital assets, being depreciated:				
Building	2,022,110	-	-	2,022,110
Furniture & fixtures	211,978	1,968	-	213,946
Office equipment	71,894	-	-	71,894
Communications equipment	671,706	61,338	-	733,044
Other fixed assets	114,926	-	-	114,926
Total capital assets, being depreciated	3,092,614	63,306	-	3,155,920
Less accumulated depreciation:				
Building	(37,915)	(50,552)	-	(88,467)
Furniture & fixtures	(17,524)	(21,198)	-	(38,722)
Office equipment	(60,942)	(2,826)	-	(63,768)
Communications equipment	(473,921)	(106,988)	-	(580,909)
Other fixed assets	(32,978)	(5,692)	-	(38,670)
Total accumulated depreciation	(623,280)	(187,256)	-	(810,536)
Total capital assets being depreciated, net	2,469,334	(123,950)	-	2,345,384
Net capital assets	\$ 2,711,344	\$ (123,950)	\$ -	\$ 2,587,394

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Notes to Financial Statements (Continued)  
June 30, 2017 and 2016

**Note 3 – Capital Assets (Continued)**

Capital assets activity for the year ended June 30, 2016 was as follows:

	June 30, 2015	Additions	Deletions	June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 242,010	\$ -	\$ -	\$ 242,010
Capital assets, being depreciated:				
Building	2,021,925	185	-	2,022,110
Furniture & fixtures	211,978	-	-	211,978
Office equipment	69,723	2,171	-	71,894
Communications equipment	649,069	22,637	-	671,706
Other fixed assets	112,775	2,151	-	114,926
Total capital assets, being depreciated	3,065,470	27,144	-	3,092,614
Less accumulated depreciation:				
Building	-	(37,915)	-	(37,915)
Furniture & fixtures	(1,494)	(16,030)	-	(17,524)
Office equipment	(58,420)	(2,523)	-	(60,942)
Communications equipment	(369,647)	(104,273)	-	(473,921)
Other fixed assets	(28,780)	(4,198)	-	(32,978)
Total accumulated depreciation	(458,341)	(164,939)	-	(623,280)
Total capital assets being depreciated, net	2,607,129	(137,795)	-	2,469,334
Net capital assets	\$ 2,849,139	\$ (137,795)	\$ -	\$ 2,711,344

**Note 4 – Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District's coverage for claims and other risks of loss is described below.

The District obtained insurance coverage for commercial property and contents for the new dispatch center. In addition, the District is listed as a named insured on the City of Kingsport's general liability policy. Management believes the coverage obtained through its commercial insurance policies is adequate to preclude any significant uninsured risk exposure to the District. There were no settlements in excess of insurance coverage related to the Emergency Communications District for the year ended June 30, 2017. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District maintains a surety bond for \$500,000 on their treasurer, \$100,000 for the chair, and \$100,000 each for all other board members. These policies run on a calendar year.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Notes to Financial Statements (Continued)  
June 30, 2017 and 2016

**Note 5 – Transactions with Primary Government**

The District contracts with the City of Kingsport (City) for use of City facilities, employees, and administrative services necessary to operate and maintain an emergency communications service for the District. The total amounts paid to the City for these services for years ended June 30, 2017 and 2016 were \$217,443 and \$217,443, respectively. The City reimbursed the District for maintenance services on communication system in the amounts of \$9,000 and \$9,108 for the years ended June 30, 2017 and 2016, respectively.

**Note 6 – Designations**

During year ended June 30, 2017, the Board of Directors of the Emergency Communications District of the City of Kingsport, Tennessee designated \$700,000 of unrestricted net position for the purpose of equipment replacement. The undesignated portion of unrestricted net position totaled \$908,262 and \$1,215,654 for years ended June 30, 2017 and 2016, respectively.

## SUPPLEMENTARY INFORMATION

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Schedule of Revenues and Expenses - Budget Versus Actual  
For Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
<b>Operating Revenues</b>				
TECB distribution of 911 surcharges	\$ 712,182	\$ 769,230	\$ 769,230	\$ -
TECB distribution of excess revenue	-	61,878	61,878	-
Total operating revenues	<u>712,182</u>	<u>831,108</u>	<u>831,108</u>	<u>-</u>
<b>Operating Expenses</b>				
Audit services	9,000	9,000	6,469	2,531
Accounting services	10,000	13,000	10,750	2,250
Contracts with government agency	230,000	220,000	217,443	2,557
Fees paid to service providers	45,000	45,000	43,200	1,800
Legal fees	26,000	20,000	5,955	14,045
Other consultants	5,000	5,000	570	4,430
Pest control	750	750	-	750
Office supplies	4,000	4,000	844	3,156
Postage	150	150	-	150
Utilities-electric	20,000	18,000	14,434	3,566
Utilities-gas	5,000	3,000	1,303	1,697
Utilities-water	1,800	1,800	1,091	709
Telephone	6,000	6,000	3,995	2,005
Maintenance/communication equipment	80,000	50,000	48,833	1,167
Maintenance/building and facilities	10,000	6,000	3,125	2,875
Board meeting expenses	4,000	3,000	64	2,936
Dues and memberships	6,000	4,000	1,990	2,010
Liability insurance	5,000	5,000	4,026	974
Building insurance	3,500	3,500	1,783	1,717
Surety bonds	6,000	6,000	5,726	274
Service awards	2,000	2,000	842	1,158
Training	55,000	30,000	28,541	1,459
Travel	30,000	35,000	24,088	10,912
Advertising	2,500	2,500	154	2,346
Other charges	1,000	1,000	92	908
Depreciation	<u>185,000</u>	<u>190,000</u>	<u>187,256</u>	<u>2,744</u>
Total operating expenses	<u>752,700</u>	<u>683,700</u>	<u>612,574</u>	<u>71,126</u>
Operating income	<u>(40,518)</u>	<u>147,408</u>	<u>218,534</u>	<u>71,126</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest	-	90	124	34
Other income	-	-	-	-
TECB grants	-	-	50,000	50,000
Non-operating revenues (expenses)	<u>-</u>	<u>90</u>	<u>50,124</u>	<u>50,034</u>
<b>Increase in net position</b>	<u>\$ (40,518)</u>	<u>\$ 147,498</u>	<u>\$ 268,658</u>	<u>\$ 121,160</u>

See independent auditors' report.

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Schedule of Revenues and Expenses - Budget Versus Actual  
For Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
<b>Operating Revenues</b>				
TECB distribution of 911 surcharges	\$ 750,000	\$ 712,182	\$ 712,182	\$ -
TECB distribution of excess revenue	-	13,721	13,721	-
Total operating revenues	<u>750,000</u>	<u>725,903</u>	<u>725,903</u>	<u>-</u>
<b>Operating Expenses</b>				
Audit services	9,000	9,000	6,466	2,534
Accounting services	8,500	10,000	8,708	1,292
Contracts with government agency	210,100	230,000	217,443	12,557
Fees paid to service providers	50,000	50,000	44,791	5,209
Legal fees	26,000	26,000	11,803	14,197
Mapping/database consultants	2,500	2,500	-	2,500
Other consultants	2,500	3,000	450	2,550
Pest control	750	750	-	750
Office supplies	4,000	4,000	1,017	2,983
Postage	150	150	47	103
Utilities-electric	20,000	15,000	12,541	2,459
Utilities-gas	9,000	3,000	1,229	1,771
Utilities-water	1,800	1,800	951	849
Telephone	-	6,000	5,500	500
Maintenance/communication equipment	80,000	80,000	48,277	31,723
Maintenance/building and facilities	-	10,000	6,668	3,332
Board meeting expenses	4,000	4,000	58	3,942
Dues and memberships	6,000	6,000	575	5,425
Liability insurance	400	5,000	4,073	927
Building insurance	2,000	3,500	3,013	487
Surety bonds	5,500	6,000	5,635	365
Service awards	2,000	2,000	1,477	523
Training	40,000	40,000	16,151	23,849
Travel	30,000	30,000	22,308	7,692
Advertising	2,500	2,500	574	1,926
Other charges	1,000	1,000	17	983
Depreciation	<u>180,000</u>	<u>170,000</u>	<u>164,939</u>	<u>5,061</u>
Total operating expenses	<u>697,700</u>	<u>721,200</u>	<u>584,711</u>	<u>136,489</u>
Operating income	<u>52,300</u>	<u>4,703</u>	<u>141,192</u>	<u>136,489</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest	-	252	277	25
Other income	-	-	14,798	14,798
Non-operating revenues (expenses)	<u>-</u>	<u>252</u>	<u>15,075</u>	<u>14,823</u>
<b>Increase in net position</b>	<u>\$ 52,300</u>	<u>\$ 4,955</u>	<u>\$ 156,267</u>	<u>\$ 151,312</u>

See independent auditors' report.



## INTERNAL CONTROL AND COMPLIANCE SECTION



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Emergency Communications District of the City of Kingsport, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Emergency Communications District of the City of Kingsport, Tennessee (the District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 19, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lewis & Associates, P.C.*

Johnson City, Tennessee  
October 19, 2017

EMERGENCY COMMUNICATIONS DISTRICT  
OF THE CITY OF KINGSPORT, TENNESSEE  
(A COMPONENT UNIT OF THE CITY OF KINGSPORT, TENNESSEE)

Schedule of Prior Audit Findings  
For Year Ended June 30, 2017

No prior findings reported.